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# THE PUBLIC DEBT OF ITALY.

BY MAGGIORINO FERRARIS.

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THE history of the Italian Public Debt reflects the long and generous struggle for national unity and independence, and the noble efforts which, since the proclamation of the Kingdom of Italy in the year 1861, have been made in order to promote and strengthen national finance and prosperity.

The whole system of Public Debt in Italy rests on the Act of Parliament of July 10th, 1861, by which the so-called *Gran Libro*, or "Great Book of the Public Debt," was instituted. Practically, the Great Book represents the amount of the national debt, which is by law inscribed in it, under the guarantees and the privileges which the law provides.

These guarantees have their first foundation in the *Statuto*, or Constitution, which King Charles Albert granted to Piedmont in 1848, and which became lately, without any change, the Constitution of the Kingdom of Italy. Clause 31 of the Constitution provides that: "The Public Debt is guaranteed. Any engagement of the State towards its creditors is inviolable."

The present Kingdom of Italy, with an area of 110,646 square miles and a population of about thirty-three millions, is the result of the union and amalgamation of all the old petty States into which the peninsula was divided. It is obvious, therefore, that the present amount of the Italian Public Debt must be traced to the following sources:

(1) The unification of old debts inherited by the small States which existed before national unity.

(2) War debts, chiefly contracted in order to carry on the great national wars of 1859 and 1866.

(3) Debts incurred for the purpose of consolidating and improving the new kingdom, both by making up the deficit of the

annual Budget and by developing public works, railways and the economical resources of the country.

Before examining the items of the Debt in detail, let us consider the different kinds of stocks and debentures which compose the Public Debt of Italy. Unfortunately, the Act of Parliament of the year 1861, creating the Great Book, was not always or uniformly carried out, so that we have a great variety of arrangements, from which a certain confusion arises. Practically, we find at first a fundamental distinction, between (1) debts administered by the office of the Public Debt; (2) debts administered by the Treasury; and (3) Floating Debts. The first class is inscribed in the Great Book, under different headings; the second and the third classes are not. But this distinction has no real practical importance; it is only of an administrative character. All public debts, whether inscribed or not, are equally guaranteed and inviolable.

A more important distinction is that which reflects the nature of the different kinds of stocks issued. They may be classified as follows: (1) Consols; (2) Redeemable Debts; (3) Treasury Bills; (4) Inconvertible paper money; (5) Miscellaneous. Each of these classes presents several subdivisions; we can only point out the most important ones.

Consols are the real foundation of the Italian Public Debt, and they may be classified in the following way:

#### OLD CONSOLS.

- 5 per cent. Consols, gross, international.
- 3 per cent. Consols, gross, international.

#### NEW CONSOLS.

- 4½ per cent. Consols, net, internal.
- 4 per cent. Consols, net, international.
- 3½ per cent. Consols, net, international.

According to this classification, we must begin by distinguishing between debts whose *gross* interest is subject to income tax, even abroad, and debts whose *net* interest is totally exempt from taxation. The income tax on the interest of Public Debts was introduced in the year 1864, and was gradually increased till it reached 20 per cent. in the year 1894. Practically, it amounts to a deduction from the interest, as the coupon is paid net; so that 5 per cent. consols give a revenue of 4 per cent; 3 per cent. consols, a revenue of 2-5 per cent. On the contrary, no deduction

is made on the coupons of  $4\frac{1}{2}$  per cent., 4 per cent., or  $3\frac{1}{2}$  per cent. consols.

Another important distinction is that between *international* and *internal* debt. The great mass of Italian Public Debts is of an international character; it can be and it is, in fact, negotiated at the exchanges of different countries, especially in Paris, Berlin and London. The coupon is paid in gold in foreign cities; it is paid in inconvertible paper currency at home.

The total amount of the Italian Public Debt may be described as follows in round figures:

Description.	Annual Interest. (Dollars.)	Total Capital. (Dollars.)
5 per cent. Consols (4 per cent. net).....	80,000,000	1,600,000,000
3 per cent. Consols (2.40 per cent. net)....	960,000	32,000,000
$4\frac{1}{2}$ per cent. Consols, net.....	12,000,000	268,000,000
4 per cent. Consols, net.....	1,550,000	39,000,000
Miscellaneous annuities .....	1,200,000	27,000,000
Redeemable debts .....	20,000,000	425,000,000
Floating debt, railway annuities, and miscellaneous .....	22,000,000	600,000,000
State notes .....	—	89,000,000
Total dollars.....	137,710,000	3,080,000,000

A recent Act of Parliament of June 12th, 1902, has created a new description of consols: the  $3\frac{1}{2}$  per cent., as a net and international stock, into which some of the old stock is being converted. Great importance is attached to this new stock, of which a small quantity, to the amount of \$16,000,000 was issued quite recently by the Treasury, at the price of 96. It is expected that the new  $3\frac{1}{2}$  per cent. consols will become the staple stock of the near future, and the principal aim of Italian finance is to bring about a conversion of the 5 per cent. stock (4 per cent. net) into  $3\frac{1}{2}$  per cent.

In the second place, we have the so-called Redeemable Debts, mostly consisting of 3 per cent. and 5 per cent. Railway Bonds, issued at different times for the construction and purchase of railways. They do not deserve special notice, except for the fact, that besides the income tax at the rate of 20 per cent. to which the interest on them is subject, they also pay a small yearly tax on their negotiability. This description of Redeemable Debts includes a rather large variety, comprising about 40 different kinds of bonds. Their total extinction will not take place till 1985. The so-called 3 per cent. Railway Bonds are the principal item

in this class. Bearers of these have the option to change them into the new  $3\frac{1}{2}$  per cent. consols.

No special observation is required as to Treasury Bills, which the government is authorized to issue to the maximum amount of \$60,000,000, for the temporary needs of the Exchequer. They represent the substantial part of the Floating Debt. It would be also useless for practical purposes to give any detailed information as to the great variety of miscellaneous debts, which have frequently arisen from accidental causes: purchase of railways, local wants, extinction of different charges, etc. As an interesting fact it may be stated, however, that in the year 1871, when Rome and the Papal States were annexed to Italy, a permanent annuity of \$645,000 was inscribed in the Public Debt in favor of the Holy See. But the annuity has never been claimed by the Pope, and no money has been ever paid on this account.

Paper money is the weak point of Italian finance, since the patriotic but unfortunate war of the year 1866 with Austria. As soon as a forced currency was introduced, there was almost no limit to the variety of notes, especially of small 10 *centesimi* and 20 *centesimi* notes—issued by private banks and even by small shopkeepers. Great confusion and disorder were the natural consequences, and it is now almost impossible to understand how this state of matters could have lasted for several years. It was only by the Act of Parliament of April 30th, 1874, that private issues were stopped, and a regular system of forced paper currency was introduced. According to that law, paper circulation was divided into two classes: (1) Bank notes issued by the six Banks of Issue: Banca d' Italia, Banca Nazionale Toscana, Banca Toscana di Credito, Banca Romana, Banco di Napoli, Banco di Sicilia,\* and (2) State notes issued by the same banks, but on account of the Treasury.

As soon as the inconvertible paper currency was introduced in the year 1866, there appeared, as its natural outcome, the gold premium. The history of Italian finance for the last quarter of a century is but a continuous though ineffectual effort to redeem the country from the bane of the gold premium and from its deleterious consequences.

\* "*Banco*" is the old term, and is still the official designation for the Banco di Napoli, Banco di Sicilia, which are public corporations. "*Banca*" is the modern term for the new Joint Stock Companies, like the Banca d' Italia.

In the history of inconvertible paper currency in Italy, four distinct periods may be traced:

(1) From the war of the year 1866 up to the Banking Act of April 30th, 1874, by which some order was introduced into the paper currency of the country;

(2) From the Banking Act of 1874 to the Act of April 7th, 1881, for the resumption of specie payment;

(3) From the Act of the year 1881 to the new Banking Act of August 10th, 1893, which, after the failure of the Banca Romana, and the union with the Banca d' Italia of the two Tuscan banks, reduced to three the number of the Banks of Issue, viz., the Banca d' Italia, Banco di Napoli, and Banco di Sicilia.

(4) From the Act of the year 1893 up to the present date.

The following table contains the principal figures relating to the above-indicated periods:

Period.	Circulation of Banks.	Proportion of Metallic Reserve.  Per Cent.	Circulation of State Notes.	Exchange on Paris.		Price in Paper Money of Five Per Cent. Consols.	
	Dollars.		Dollars.	Highest.	Lowest.	Highest.	Low- est.
1866-1874 .	125,000,000	33	176,000,000	115.70	108.55	76.00	56.20
1874-1881 .	147,000,000	33	188,000,000	101.55	98.72	92.55	86.32
1881-1893 .	244,000,000	33	70,000,000	115.95	103.97	97.49	89.35
1893-1901 .	197,000,000	40	89,000,000	107.05	104.35	102.57	97.00
June, 1902.	192,000,000	40	89,000,000	101.50		104.50	

The three Banks of Issue are also empowered to issue notes to an unlimited amount, provided that they are fully covered by gold. The present amount of such notes is about \$20,000,000.

Several circumstances characterized these different periods.

In the first period (1866-1874), besides complete disorder in the issue of paper money, national finance, owing to the campaigns of the years 1866 and 1870, was in a very bad condition. The deficit in the State Budget reached \$144,000,000 in the year 1866, during the war with Austria, and gradually fell to almost \$2,000,000 in the year 1874, chiefly owing to the noble efforts of Sella and Minghetti, the two leaders of the Conservative party then in power.

The second period (1874-1881) gave hopes of a rapid improvement in the economic conditions of the country. The Budget presented an increasing surplus, which reached almost \$11,000,000 in the year 1881. The Liberal party having come to power

in the year 1876, abolished the unpopular flour tax; projected railways and large public works, and increased public expenditure of every kind in a rather lavish way. At the same time, government attempted to resume specie payment. The forced paper money in circulation amounted to \$188,000,000; \$68,000,000 were converted into small one-dollar and two-dollar notes; \$120,000,000 were redeemed at par in gold. This amount of gold had been obtained by a loan, through the issue of consols, especially on the English market, through Messrs. Hambro & Sons. The prospects of the country at that time were so good that, as soon as the Bill for the resumption of specie payment was introduced into Parliament, the rate of exchange on Paris dropped very rapidly almost to 100, and the gold premium totally disappeared.

No sooner had this period of growing prosperity set in, than the government and the country lost sight of every principle of wise economy. Public expenditure increased continuously, so that the unprecedented surplus of almost \$11,000,000 in the year 1881 soon converted itself into a small deficit in the year 1884, which increased up to \$47,000,000 in the year 1889-90! The State construction of new railways proceeded so rapidly that large loans were issued every year in order to pay for them, up to the amount of nearly \$60,000,000, in the single year 1887-88. Exchange speculation, unsound joint-stock companies, overbuilding in large towns, especially in Rome and Naples, grew to such an extent, as to induce both the government and the Banks of Issue to make an illegal over-issue of paper money. Under such conditions, the resumption of gold payments soon became a failure; the gold premium reappeared; consols fell; banks failed or were utterly crippled; and there ensued a protracted financial and economical depression. This crisis reached its climax in the years 1889-1892.

When Crispi's cabinet was formed in the year 1893, the financial situation of the country was most serious. Especially through Signor Sonnino's endeavors, there began a new period of financial retrenchment and of economical reconstruction. Unfortunately, the war with Abyssinia broke out, and the country again passed through a short period of depression. That war, though most unfortunate, did not cost the country more than \$30,000,000, which were added to the Public Debt. But, the Di Rudini cabinet soon began to restore order to the public finances,

and by the year 1896-97, the surplus of effective income over expenditure reappeared. This surplus has been increasing from year to year, as appears from the following figures:

## SURPLUS IN THE ITALIAN BUDGET.

Years.	Surplus
	Millions. Dollars.
1900-1901.....	11.67
1899-1900.....	7.68
1898-1899.....	6.51
1897-1898.....	1.85

The surplus—owing especially to large imports of wheat, subject to the duty of \$1 50 per double cwt.—increased up to almost \$12,000,000 last year; but the surplus is seriously diminishing in the present year. While the third period (1881-1893) was one of long depression and of serious crisis, the new period (1894-1902) presents a constant and gradual improvement in the conditions of the country. During the last two years, not only could the government stop new issues of loans or consols, but it even began to pay off a certain amount of redeemable debts. Even the construction of new railways, to the amount of about \$4,000,000 a year, and the expenditure on account of China, at the rate of \$2,000,000 a year, are paid out of current revenue, without having recourse to new loans.

The course of national finance and of the Public Debt reflects the political events through which the country has passed. In the second half of the past century, the great deed of national unity, independence and consolidation was accomplished. It was a period of continuous patriotic agitations, of external wars, of internal development. The present Kingdom of Italy is the result of a great patriotic movement which ended with the amalgamation into one nation of several small States, which often presented very inferior economical and social conditions. In many provinces, especially in the South, there were no railways, no highroads, no bridges, no schools. Everything had to be created; and those who frequently complain of the present social condition of Italy, most probably ignore the fact that it was an enormous task, beyond the power of a single generation, to build up the new edifice of civilization and progress.

Several technical points relating to the management of the Public Debt have for many years been the subject of much debate.



The fact that a certain amount of the Italian Public Debt is still held by foreign holders, especially in France and Germany, has two opposite consequences. On the one hand, it increases the capital and the credit of the country through the influx of foreign capital. On the other, it constitutes a heavy foreign debt in gold, for which the country must pay annual gold interest. Whenever any sudden political or financial crisis of an international character arises, Italian consols fall at foreign exchanges more rapidly than at home, and the rates of exchange are so immediately troubled that the gold premium rises. This fact has led some competent observers to believe that a permanent resumption of specie payment in Italy is hardly possible so long as a considerable proportion of our National Debt is held abroad. Though we do not believe that there are solid grounds for such an apprehension, we must remember that the country is gradually redeeming her foreign debt, by national savings. The gold interest which the Italian Treasury yearly pays on consols and stocks held abroad is gradually diminishing, as appears from the following figures:

## INTEREST PAID ABROAD IN GOLD ON PUBLIC DEBTS.

Year.	Dollars.
1900.....	12,300,000
1899.....	14,800,000
1898.....	16,200,000
1897.....	17,300,000
1896.....	17,800,000
1895.....	19,400,000
1894.....	19,000,000
1893.....	39,400,000

In round figures it may be said, that during the last seven years Italy redeemed about \$200,000,000 of the National Debt held by foreign holders, and that about \$280,000,000 of her Public Debt is still held in foreign hands, especially in Germany and France. But the absorption of our National Debt from other countries is going on well.

Though there are some dissentient voices, the preference for stocks of an international character is increasing, and the new 3½ per cent. consols belong to this category. The general opinion is, that notwithstanding our foreign debt, the annual monetary balance is in favor of Italy, on account of the large remittances of our emigrants, scattered over all the world, especially in Amer-

ica, and of the continuous increase of foreign travellers in Italy. The movement of foreigners in this country is greatly developing: from San Remo and Nervi in the Riviera, to Florence, Rome, Naples and Sicily, the whole country is visited by a continuous crowd of foreigners. Associations are now being promoted all over the country in order to encourage and facilitate such a movement; and it is estimated that the annual remittances to Italy on account of foreign travellers amount to as much as \$80,000,000. A large proportion of this sum is contributed by citizens of the United States, and the whole movement goes far towards determining a monetary balance in favor of the country.

Another point, which is frequently raised, relates to the issue of consols or of redeemable debts. No doubt the issue of gradually terminable annuities is to be preferred in theory. But in a new country, like Italy, public wants are so numerous, that every attempt to issue annuities failed. As soon as the sums to be devoted to the extinction of annuities increased to a high figure, proposals arose to convert redeemable debts into consols, in order to avoid new taxation. As a natural consequence, the extinction of Public Debts is progressing rather slowly, and much less rapidly than was often contemplated.

In old times, especially during the period of the national wars, consols were frequently issued at a heavy discount below par. Frequently enough 5 per cent. gross consols were issued at a price between 70 and 80; more recently 3 per cent. gross Railway Bonds were issued at about 60. At present, the best authorities agree that loans must be issued as near par as possible, and the new issue of  $3\frac{1}{2}$  per cent. net consols has been made, as we have said, at 96.

It is often affirmed, chiefly by foreign writers on Italian finance, that the country is crushed by the amount of her Public Debt. There is much exaggeration in this statement, though it may have an apparent foundation in the fact that out of a total annual revenue of \$346,000,000, the Budget is charged with \$137,000,000 of interest on Public Debts of various descriptions, besides civil and military pensions to the amount of \$16,000,000. This apparent proportion of 40 per cent. between the interest on Public Debt and the total revenue is rather an unfavorable one. But it must be mentioned that, on a large portion of the interest

on Public Debts, there is a taxation of 20 per cent., so that the net payments are reduced to about \$120,000,000. Moreover, more than a third of the Public Debt was contracted in order to construct or purchase railways, which yield about \$20,000,000 net revenue to the State, so that the annual burden to the Treasury is scarcely more than \$100,000,000. The proportion, though a heavy one, does not justify the pessimistic views which have frequently prevailed in some quarters.

Italy was gradually progressing between 1870 and 1880, when a period of unprecedented financial and economic folly set in, in the years 1881-1893. But the inevitable reaction soon began: two different Ministers of Finance, Luzzatti in 1891 and Sonnino in 1894, began a sound policy of retrenchment and laid the foundation of the present improved financial situation. Public expenditure and public works were largely cut down, new taxation was firmly imposed, the Budget was restored to order, and began to present increasing surpluses up to last year. As a natural consequence, the increase of the Public Debt has been stopped, and even a certain annual reduction, especially in the floating debt, has been operated. Meanwhile, some attempts were made to strengthen and improve the financial condition of provinces and municipalities; but many reforms have yet to be adopted in this field.

Notwithstanding a large number of labor disputes between masters and workmen, especially in the agricultural districts, notwithstanding the growth of a socialistic party, Italy enjoys at present a period of sound national finance and economy. Wealth is progressing and accumulating, wages are improving, though the supply of labor, especially in agricultural districts and with the middle classes, is in excess of the demand.

It only remains to hope that, in the near future, the country may be governed in a wise spirit of retrenchment and reform, and with an active policy, which is necessary in order firmly to establish and to increase her prosperity.

MAGGIORINO FERRARIS.